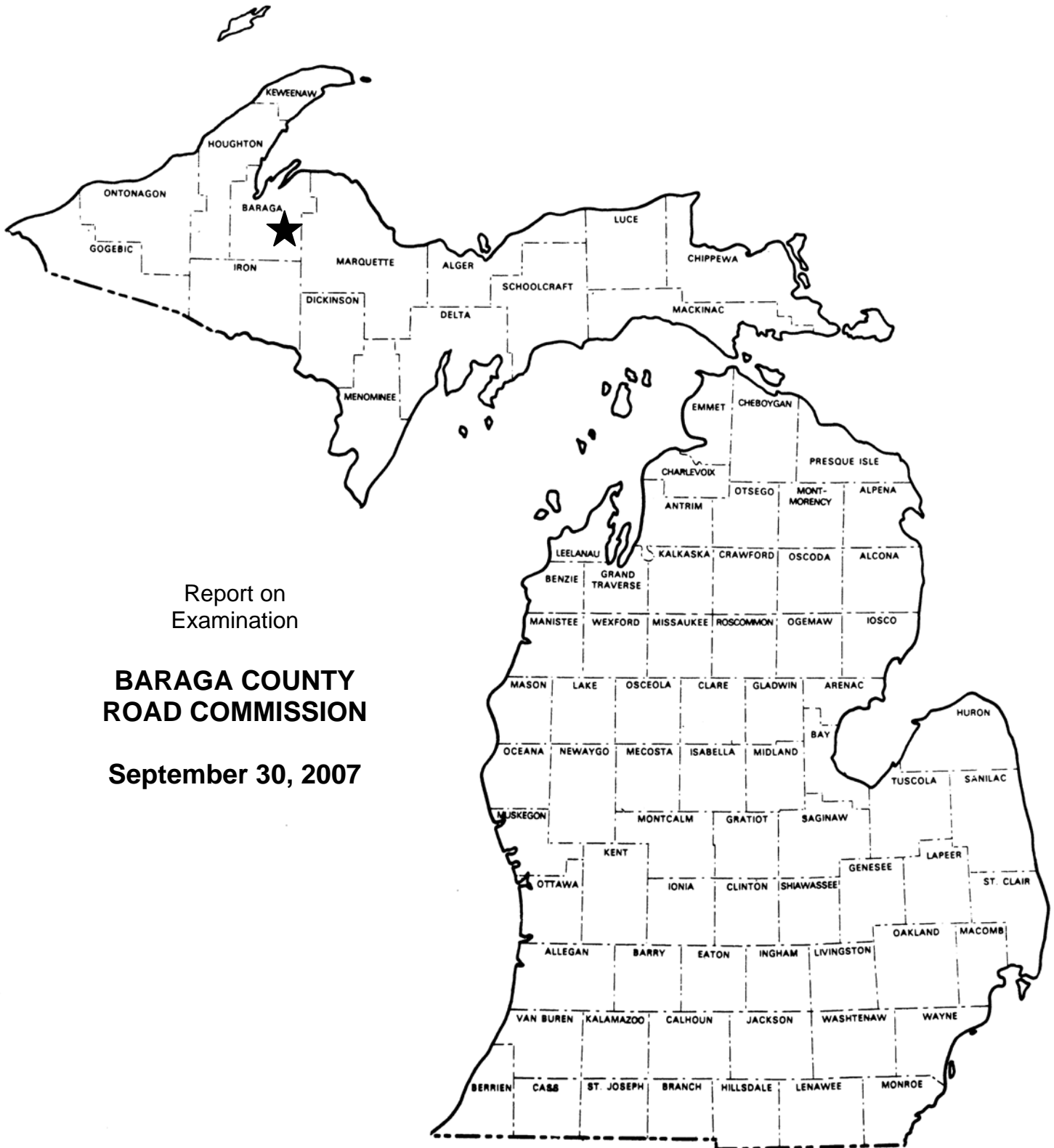


STATE OF MICHIGAN
JENNIFER M. GRANHOLM, Governor
DEPARTMENT OF TREASURY



Report on
Examination

**BARAGA COUNTY
ROAD COMMISSION**

September 30, 2007

BARAGA COUNTY ROAD COMMISSION
BOARD OF COUNTY ROAD COMMISSIONERS

Anthony R. Selkey
Chairperson

Harold Miron
Vice Chairperson

Roy Koski
Member

Douglas J. Mills, P.E.
Engineer/Manager

Mary R. Bedner
Clerk/Office Manager

COUNTY POPULATION--2000
8,746

STATE EQUALIZED VALUATION--2007
\$312,999,741



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

January 11, 2008

Baraga County Road Commission
Board of County Road Commissioners
US 41 South
P.O. Box 217
L'Anse, Michigan 49946

Independent Auditor's Report

Dear Commissioners:

We have audited the accompanying basic financial statements of the Baraga County Road Commission, a component unit of Baraga County, Michigan, as of and for the year ended September 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Baraga County Road Commission as of September 30, 2007 and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated January 11, 2008 on our consideration of the Baraga County Road Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial

reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 1 through 10 and the budget comparison information in Exhibits G and H are not part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements, taken as a whole.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Baraga County Road Commission's basic financial statements. The accompanying supplementary and related information in Exhibits I through K is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements, taken as a whole.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

BARAGA COUNTY ROAD COMMISSION

TABLE OF CONTENTS

	<u>Page</u>
MANAGEMENT’S DISCUSSION AND ANALYSIS	1
 BASIC FINANCIAL STATEMENTS--GOVERNMENT-WIDE GOVERNMENTAL FUND FINANCIAL STATEMENTS	
EXHIBIT A--Statement of Net Assets	11
EXHIBIT B--Statement of Activities	12
EXHIBIT C--Balance Sheet	13
EXHIBIT D--Reconciliation of the Balance Sheet Fund Balance to the Statement of Net Assets	14
EXHIBIT E--Statement of Revenues, Expenditures and Changes in Fund Balance.....	15
EXHIBIT F--Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statements of Activities.....	16
NOTES TO FINANCIAL STATEMENTS	17
 REQUIRED SUPPLEMENTARY INFORMATION	
EXHIBIT G--Schedule of Revenues and Other Financing Sources Budget and Actual	31
EXHIBIT H--Schedule of Expenditures--Budget and Actual	32
 SUPPLEMENTAL SCHEDULES	
EXHIBIT I--Analysis of Changes in Fund Balances.....	33
EXHIBIT J--Analysis of Revenues and Other Financing Sources.....	34
EXHIBIT K--Analysis of Expenditures	35

BARAGA COUNTY ROAD COMMISSION

TABLE OF CONTENTS (Continued)

	<u>Page</u>
SCHEDULE 1--Expenditures of Federal Awards	36
Notes to Schedule of Expenditures of Federal Awards	37
SCHEDULE 2--Findings and Questioned Costs	38
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance With <u>Government Auditing Standards</u>	41
Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133	43

BARAGA COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Baraga County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the fiscal year ended September 30, 2007. This discussion and analysis is designed to: a) assist the reader in focusing on significant financial issues; b) provide an overview of the Road Commission's financial activities; c) identify changes in the Road Commission's financial position (its ability to address the next and subsequent year challenges); d) identify any material deviations from the approved budget; and e) identify any issues or concerns.

Overview of the Financial Statements

This annual report consists of four parts: management's discussion and analysis (this section), the basic financial statements, required supplementary information, and an additional section that presents the Operating Fund broken down between primary, local and county funds. The basic financial statements include two kinds of statements that present different views of the Road Commission.

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission, as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Road Commission and present a longer-term view of the Road Commission's finances. The two government-wide statements report the Road Commission's net assets and how they have changed.
- The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending.

Reporting the Road Commission as a Whole

The Statement of Net Assets and the Statement of Activities report information about the Road Commission, as a whole, and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the year's revenues and expenses are taken into account regardless of when cash is received or paid.

BARAGA COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

The two statements mentioned above report the Road Commission's net assets and changes in them. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases and decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating.

Report on the Road Commission's Major Fund

The fund financial statements begin with Exhibit A and provide detailed information about the major fund. The Road Commission currently has only one fund, the General Operations Fund, in which all of the Road Commission's activities are accounted. The General Operations Fund is a governmental type fund.

- **Governmental Fund**--The governmental fund focuses on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the governmental fund in a reconciliation following the fund financial statements.

The Road Commission as a Whole

The Road Commission's net assets increased approximately 32.6% or \$3,873,629 from \$11,867,426 to \$15,741,055 for the year ended September 30, 2007. The net assets and change in net assets are summarized below.

Restricted net assets, those restricted mainly for Act 51 purposes, were \$1,190,297 during 2007, a decrease of \$63,810 from the prior year. The change was primarily the result of a reduction in Michigan Transportation Fund (MTF) funding and maintenance activity expenditures in 2007 as compared to 2006.

Restricted net assets are those net assets that have constraints placed on them by either: a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specified purpose stipulated in the legislation. As such all assets (except for assets invested in capital assets-net or related debt) are considered restricted. The depreciation for the current year's infrastructure assets will be depreciated in the subsequent year.

BARAGA COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

The investment in capital assets for 2007, net of related debt, was \$14,550,758, an increase of \$3,937,439 from the prior year. The increase was primarily the result of reporting infrastructure in the amount of \$3,755,734 for the year 2007.

Net assets as of the year ended September 30, 2007 are as follows:

	Governmental Activities 09/30/06	Governmental Activities 09/30/07	Variance	Percentage
Current and Other Assets	\$ 2,166,411	\$ 1,995,590	\$ (170,821)	-7.88%
Net Capital Assets	<u>11,077,649</u>	<u>14,633,088</u>	<u>3,555,439</u>	<u>32.10%</u>
Total Assets	<u>13,244,060</u>	<u>16,628,678</u>	<u>3,384,618</u>	<u>25.56%</u>
Current Liabilities	593,770	466,767	127,003	27.21%
Noncurrent Liabilities	<u>782,865</u>	<u>420,855</u>	<u>362,010</u>	<u>86.02%</u>
Total Liabilities	<u>1,376,635</u>	<u>887,622</u>	<u>(489,013)</u>	<u>-35.52%</u>
Net Assets				
Invested in Capital Assets				
Net of Related Debt	10,613,319	14,550,758	3,937,439	37.10%
Restricted	<u>1,254,107</u>	<u>1,190,297</u>	<u>(63,810)</u>	<u>-5.09%</u>
Total Net Assets	<u><u>\$ 11,867,426</u></u>	<u><u>\$15,741,055</u></u>	<u><u>\$3,873,629</u></u>	<u><u>32.64%</u></u>

BARAGA COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

A summary of changes in net assets for the year ended September 30, 2007 follows:

	2006	2007	Difference	Percent
Program Revenue				
Federal Grants	\$ 1,581,597	\$ 2,622,205	\$ 1,040,608	39.68%
State Grants	2,529,753	2,849,436	319,683	11.22%
Contributions From Local Units	152,360	102,346	(50,014)	-48.87%
Charges for Services	99,708	456,541	356,833	78.16%
Investment Earnings	22,414	46,963	24,549	52.27%
Reimbursements	48		(48)	100.00%
General Revenue				
Property Taxes	283,806	316,999	33,193	10.47%
Gain on Equipment Disposal	10,138	45,486	35,348	77.71%
Total Revenue	<u>4,679,824</u>	<u>6,439,976</u>	<u>1,760,152</u>	<u>27.33%</u>
Expenses				
Primary Road Maintenance	627,379	695,328	(67,949)	-10.83%
Local Road Maintenance	1,384,111	1,337,124	46,987	3.39%
Private Driveway Plowing		78,797	(78,797)	100.00%
Net Equipment Expense	(54,712)	(148,622)	(93,910)	-171.64%
Net Administrative Expense	373,057	366,535	6,522	1.75%
Infrastructure Depreciation Expense	134,602	174,501	(39,899)	-29.64%
Compensated Absences	(30,456)	19,990	(50,446)	165.64%
Non-Road Project	62,056	38,603	23,453	37.79%
Interest Expense	12,365	4,091	8,274	66.91%
Total Expenses	<u>2,508,402</u>	<u>2,566,347</u>	<u>(57,945)</u>	<u>-2.31%</u>
Increase in Net Assets	<u>2,171,422</u>	<u>3,873,629</u>	<u>1,702,207</u>	<u>78.39%</u>
Ending Net Assets	<u>\$11,867,426</u>	<u>\$15,741,055</u>	<u>\$3,873,629</u>	<u>32.64%</u>

The Road Commission's Fund

The Road Commission's General Operations Fund is used to control the expenditures of Michigan Transportation Fund monies, distributed to the county, which are earmarked by law for road and highway purposes.

BARAGA COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

	<u>2006</u>	<u>2007</u>	<u>Variance</u>	<u>%</u>
Revenues				
Taxes	\$ 283,806	\$ 316,999	\$ 33,193	11.70%
Federal Aid	1,775,374	2,551,485	776,111	43.72%
State Aid	2,561,298	2,849,436	288,138	11.25%
Contributions From Local Units	152,360	102,346	(50,014)	-32.83%
Charges for Services	34,277	157,508	123,231	359.52%
Interest and Rents	22,414	46,963	24,549	109.53%
Other Revenue	75,617	344,519	268,902	355.61%
Total Revenues	<u>4,905,146</u>	<u>6,369,256</u>	<u>1,464,110</u>	<u>29.85%</u>
Expenditures				
Public Works	4,438,140	5,764,328	(1,326,188)	-29.88%
Capital Outlay	335,673	333,377	2,296	0.68%
Debt Service	217,007	446,106	(229,099)	-105.57%
Total Expenditures	<u>4,990,820</u>	<u>6,543,811</u>	<u>(1,552,991)</u>	<u>-31.12%</u>
Excess of Expenditures Over Revenues	<u>(85,674)</u>	<u>(174,555)</u>	<u>(88,881)</u>	<u>-103.74%</u>
Other Financing Sources				
Installment Purchase Proceeds		60,015	60,015	100.00%
Total Other Financing Sources	<u>-</u>	<u>60,015</u>	<u>60,015</u>	<u>100.00%</u>
Excess of Revenues and Other Financing Sources Over Expenditures	<u>(85,674)</u>	<u>(114,540)</u>	<u>(28,866)</u>	<u>-33.69%</u>
Fund Balance--Beginning	<u>1,658,316</u>	<u>1,572,642</u>	<u>(85,674)</u>	<u>-5.17%</u>
Fund Balance--Ending	<u>\$1,572,642</u>	<u>\$ 1,458,102</u>	<u>\$ (114,540)</u>	<u>-7.28%</u>

For the year ended September 30, 2007, the fund balance of the General Operations Fund decreased \$114,540 as compared to a decrease of \$85,674 in the fund balance for the fiscal year ended September 30, 2006. Total operating revenues were \$6,369,256, an increase of \$1,464,110 as compared to last year. This change in revenues resulted from, comparing the two periods, a substantial increase in Federal Aid. The difference in Federal aid from 2006 to 2007 was primarily due to the reconstruction of two local system bridges and the advancing of several projects under the Local Jobs Today Program.

Total expenditures were \$6,543,811, an increase of \$1,552,991 in comparison to last year. This change in expenditures is primarily the result of the reconstruction of two local system bridges and the advancing of several projects under the Local Jobs Today Program in 2007.

BARAGA COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

Budgetary Highlights for FY2007

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission's Board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year.

The original revenue budget for 2007 was \$6,565,000, which was \$135,000 more than the final amended budget. This reduction from the original revenue budget was due, in large part, to the Road Commission receiving less certain Federal and State aid project funding during the year than was originally planned. The final amended budget was \$729 more than the actual revenue received for the year.

The Road Commission's original expenditures were projected at \$6,665,000, while the final amended budget was \$6,430,000. The actual expenditures were \$6,543,811 resulting in actual expenditures being more than the budget \$113,000. This was primarily due to the timing of some projects completed after October 1st (FY2008) and expenditures on a bridge replacement project that were not included in the final amended budget.

Capital Assets and Debt Administration

Capital Assets

As of September 30, 2007, the Road Commission had \$14,633,088 invested in capital assets as follows:

	<u>09/30/06</u>	<u>09/30/07</u>	<u>Percentage Change</u>
Capital Assets Not Being Depreciated			
Land and Improvements	\$ 106,277	\$ 106,277	0.00%
Infrastructure--Land and Improvements	<u>5,052,719</u>	<u>6,462,420</u>	<u>21.81%</u>
Capital Assets Being Depreciated			
Buildings	495,326	495,326	0.00%
Road Equipment	5,252,747	4,976,579	-5.55%
Shop Equipment	104,461	105,366	0.86%
Office Equipment	131,221	134,429	2.39%
Engineer's Equipment	103,559	107,953	4.07%
Stockroom Equipment	42,185	49,132	14.14%
Depletable Assets	53,083	53,083	0.00%
Infrastructure--Bridges	3,579,104	4,286,528	16.50%
Infrastructure--Roads	<u>1,430,375</u>	<u>3,068,984</u>	<u>53.39%</u>
Total Capital Assets	16,351,057	19,846,077	17.61%
Total Accumulated Depreciation	<u>(5,273,408)</u>	<u>(5,212,989)</u>	<u>-1.16%</u>
Total Net Capital Assets	<u><u>\$ 11,077,649</u></u>	<u><u>\$ 14,633,088</u></u>	<u><u>24.30%</u></u>

BARAGA COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

The Road Commission reported the infrastructure and related assets during the current year in the amount of \$4,089,112. The infrastructure is financed through Federal, State and local contributions. The Road Commission will retroactively report infrastructure assets (assets acquired after 1980) in a subsequent year as permitted by GASB Statement No. 34.

This year's major capital asset additions included the following:

Construction and Reconstruction of Bridges	\$ 707,424
Various Resurfacing Projects and Related Land/Right-of-Way	3,048,311
Road Equipment	306,770
Other Various Equipment	<u>26,607</u>
Total Additions	<u><u>\$ 4,089,112</u></u>

There was one new installment purchase agreement entered into during 2007, all other equipment was acquired with Road Commission funds.

Debt

At the year end, the Road Commission had \$82,330 in installment purchase agreements versus \$189,330 last year, a decrease of \$107,000 or 57% as shown below:

	<u>2006</u>	<u>2007</u>	<u>Variance</u>	<u>% of Variance</u>
Installment Purchase Agreements	<u>\$ 189,330</u>	<u>\$ 82,330</u>	<u>\$ 107,000</u>	<u>56.52%</u>
Total	<u><u>\$ 189,330</u></u>	<u><u>\$ 82,330</u></u>	<u><u>\$ 107,000</u></u>	<u><u>56.52%</u></u>

One installment purchase agreement was paid off during the year and the remaining two will be paid off during 2007. For detailed information about the Road Commission's long-term liabilities, see Note G to the financial statements.

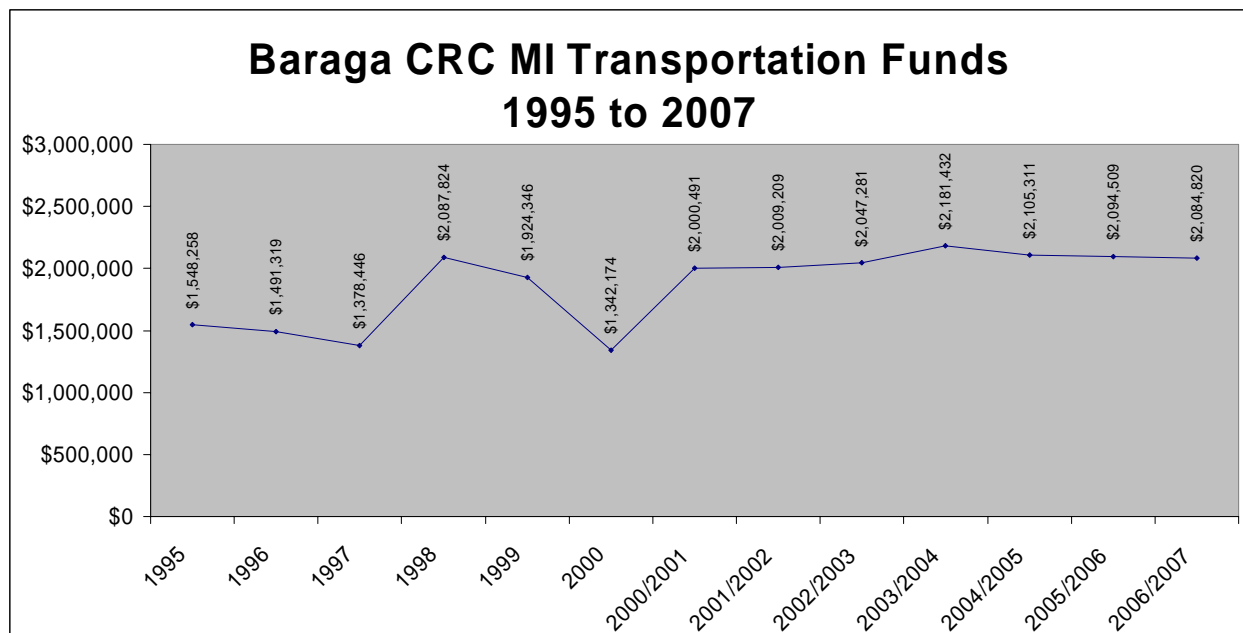
During 2007, the Road Commission paid off the three year agreement with the State Infrastructure Bank for a \$275,000, 0% loan to be paid in full at the end of the third year (2007).

BARAGA COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

Economic Factors and Next Year's Budget

The needs and demands placed on agencies responsible for maintaining the Michigan Transportation System continue to grow. The cost of equipment, material and personnel continue to increase since the gas tax was last increased in 1997. Throughout the state, road commissions continued to struggle with budget issues during the past year. Several road commissions had significant layoffs and shutdowns in 2007. In addition, road commissions have reported to the County Road Association of Michigan (CRAM) that they are unable to purchase needed equipment, maintain adequate staffing levels and provide matching funds for projects. The lack of needed funding results in reduced basic service levels, deferred maintenance and less investment in capital improvements for roads, bridges and culverts.

The decline of the Michigan Transportation Fund (MTF) revenue cannot keep pace with inflation, let alone the huge cost increases for construction and maintenance. From 2003 to 2007, construction material prices have increased 42%. Reduced spending power and the erosion of the basic allocated funding source limits the ability to undertake proper long-range planning and manage the public assets. Local road agencies, including Baraga County, are simply not able to keep up with basic transportation needs. Below is a summary of the trends in the MTF revenue allocations to the Baraga County Road Commission during recent years.



Source: Act 51 Annual Reports

BARAGA COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

The board of county road commissioners considered many factors when setting the fiscal year 2008 budget. One of the major factors is the Michigan Transportation Fund (MTF). The MTF provides the primary operating revenue for the Road Commission. The MTF, Act 51 of 1951 provides for the distribution of over \$2.0 billion of fuel taxes and vehicle registration fees collected in Michigan. After deductions of 1 cent of the 1997 gas tax increase for bridges, \$43 million for state debt service and deductions for other state agencies, public transit, economic development and local bridge programs, the balance is distributed by formula: state-39.1%, counties-39.1%, and cities and villages-21.8%.

Changes by the State of Michigan in trailer plate fee collections resulted in a small, one year spike in the MTF in 2004. Because the trailer plates are now purchased one time instead of annually, revenues from the collections increased the MTF funding for 2004, with a substantial decrease in the succeeding years. The trailer plate collections in 2008 are expected to remain at 2007 levels, significantly down from 2004 levels.

The State of Michigan also continues to allow MTF funds to be utilized by, and provide funding for, other State departments. This money comes off the top of the MTF and results in fewer dollars available to the Michigan Department of Transportation, county road commissions, and city and village street departments.

Fuel tax collections are also expected to continue in a downward trend in 2008 due to less consumption. The less consumption results from higher fuel prices, the economic conditions throughout the state, more fuel efficient vehicles, and increased use of hybrid vehicles and alternative fuels. If there is less consumption there will be less Michigan Transportation Fund tax collections and fewer dollars distributed to road agencies.

Because of the above stated reasons, the total anticipated MTF funding for Baraga County was estimated to be 4% less for the 2008 fiscal year as compared to 2007.

Another factor considered when preparing the fiscal year 2008 budget was the availability of funding sources other than the MTF. In Baraga County, the Road Commission anticipates several road projects and one bridge replacement project to be partially funded by various State and Federal agencies, including the Bureau of Indian Affairs. In addition, the Local Jobs Today (LJT) Program will provide additional matching funds to accelerate several projects on the Federal Aid System. The LJT program will provide matching funds for certain qualifying projects that are let to contract by April 4, 2008.

While a substantial portion of Road Commission revenue comes from State and Federal sources to partially fund improvement projects, local funding is also needed to provide matching dollars. Countywide road millage, township millages, township contributions and tribal contributions are also anticipated to provide revenue toward many projects and maintenance activities in the 2008 fiscal year.

BARAGA COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

In summary, key revenue factors and expenditure concerns were analyzed during the preparation of the 2008 fiscal year budget. Revenue factors included: declining allocated funding from the MTF; limited local funding resources and limited availability of other competitive State and Federal program funds. Expenditure concerns included: two loans to be paid off in FY2008; fuel costs anticipated to be at unprecedented levels, major increases in other materials such as, asphalt, aggregate and steel; continued employee health insurance cost increases; and unfunded employee retirement liability. All of these concerns, in addition to the general items previously discussed, were considered when adopting the budget for 2008. Amounts expected to be available for appropriation in the FY2008 budget are \$6,410,000. New State transportation funding initiatives are being discussed; however, no new funding sources are expected to be in place to provide additional revenue for FY2008.

The board realizes, and the reader should understand, that there are not sufficient funds available to adequately address the needs of the county road system, as a whole. Additional drainage improvements, preventative maintenance, reconstruction, bituminous resurfacing and surfacing of gravel roads throughout the county are needed. Many needed projects and activities remain unfunded and priorities must be established for the entire system. The preparation of the budget is challenging. However, the board attempts to spend the public's money wisely and equitably and in the best interest of the motoring public and the citizens of Baraga County.

Contacting the Road Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Road Commission for Baraga County administrative offices at: 18139 US 41, L'Anse, Michigan, 49946.

BARAGA COUNTY ROAD COMMISSION
STATEMENT OF NET ASSETS
September 30, 2007

EXHIBIT A

ASSETS

Cash	\$ 930,392
Accounts Receivable	
Sundry Accounts	33,030
Michigan Transportation Fund	309,876
State--Other	7,064
Due From Federal	327,688
Inventories	
Road Materials	220,295
Equipment Parts and Materials	119,654
Prepaid Expenses	47,591
Capital Assets (Net of Accumulated Depreciation)	<u>14,633,088</u>
Total Assets	<u>16,628,678</u>

LIABILITIES

Current Liabilities	
Accounts Payable	305,538
Retainage Payable	43,563
Due to State of Michigan	45,613
Accrued Liabilities	39,027
Driveway Snow Plowing Deposits	32,486
Due Other Units of Government	541
Noncurrent Liabilities	
Installment Purchase Agreements Payable--Due in One Year	82,330
Vested Employee Benefits Payable	<u>338,525</u>
Total Liabilities	<u>887,623</u>

NET ASSETS

Investment in Capital Assets	
Net of Related Debt	14,550,758
Restricted for County Roads	<u>1,190,297</u>
Total Net Assets	<u><u>\$ 15,741,055</u></u>

The Notes to Financial Statements are an integral part of this statement.

BARAGA COUNTY ROAD COMMISSION
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2007

EXHIBIT B

Program Expenses	
Primary Road Maintenance	\$ 695,328
Local Road Maintenance	1,337,124
Private Driveway Plowing	78,797
Net Equipment Expense	(148,622)
Net Administrative Expense	366,535
Infrastructure Depreciation	174,501
Compensated Absences	19,990
Cost of General Services	38,603
Interest Expense	4,091
	<hr/>
Total Program Expenses	2,566,347
	<hr/>
Program Revenue	
Charges for Services	
Charges for Services	455,543
Reimbursements	998
Operating Grants and Contributions	
Michigan Transportation Funds	2,084,821
Investment Earnings	46,963
Capital Grants and Contributions	
Federal Grants	2,622,205
State Grants	764,615
Contributions From Local Units	102,346
	<hr/>
Total Program Revenue	6,077,491
	<hr/>
Net Program Revenue	3,511,144
	<hr/>
General Revenue	
Taxes	316,999
Gain on Equipment Disposal	45,486
	<hr/>
Total General Revenues	362,485
	<hr/>
Change in Net Assets	3,873,629
	<hr/>
Net Assets	
Beginning of Year	11,867,426
	<hr/>
End of Year	\$ 15,741,055
	<hr/> <hr/>

The Notes to Financial Statements are an integral part of this statement.

BARAGA COUNTY ROAD COMMISSION
BALANCE SHEET
September 30, 2007

EXHIBIT C

	GOVERNMENTAL FUND TYPE
	General Operating Fund
<u>ASSETS</u>	
Bank Deposits	\$ 930,392
Accounts Receivable	
Michigan Transportation Funds	309,876
State Highway--Other	7,064
Sundry Accounts	33,030
Due From Federal Government	327,688
Inventories	
Road Materials	220,295
Equipment Parts and Materials	119,654
Prepaid Expense	<u>47,591</u>
Total Assets	<u><u>\$ 1,995,590</u></u>
<u>LIABILITIES AND FUND EQUITY</u>	
Liabilities	
Accounts Payable	\$ 305,538
Retainage Payable	43,563
Accrued Liabilities	39,027
Due to State	45,613
Other Accrued Liabilities	541
Advances	
Driveway Plowing	32,486
Deferred Revenue--BIA	<u>70,720</u>
Total Liabilities	<u>537,488</u>
Fund Equities	
Fund Balance	
Reserved for Inventory	339,949
Reserved for Self-Insurance	232,614
Unreserved and Undesignated	<u>885,539</u>
Total Fund Equities	<u>1,458,102</u>
Total Liabilities and Fund Equities	<u><u>\$ 1,995,590</u></u>

The Notes to Financial Statements are an integral part of this statement.

**BARAGA COUNTY ROAD COMMISSION
RECONCILIATION OF THE BALANCE SHEET FUND
BALANCE TO THE STATEMENT OF NET ASSETS
For the Year Ended September 30, 2007**

EXHIBIT D

Total Governmental Fund Balance \$ 1,458,102

Amounts reported for governmental activities in the Statement of Net Assets are
are different because:

Capital assets used in governmental activities are not financial resources and,
therefore, are not reported in the funds. 14,633,088

Other long-term assets are not available to pay for current period expenditures
and, therefore, are not reported in the funds. (420,855)

Deferred revenue is not available pay for current period expenditures
and, therefore, not reported in the funds 70,720

Net Assets of Governmental Activities \$15,741,055

The Notes to Financial Statements are an integral part of this statement.

BARAGA COUNTY ROAD COMMISSION
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
For the Year Ended September 30, 2007

EXHIBIT E

	Operating Fund
Revenues	
Taxes	\$ 316,999
Federal Aid	2,551,485
State Aid	2,849,436
Contributions From Local Units	102,346
Charges for Services	157,508
Interest and Rents	46,963
Other Revenue	344,519
	<hr/>
Total Revenues	6,369,256
	<hr/>
Expenditures	
Public Works	5,764,328
Capital Outlay	333,377
Debt Service	446,106
	<hr/>
Total Expenditures	6,543,811
	<hr/>
Excess of Revenues Over (Under) Expenditures	(174,555)
	<hr/>
Other Financing Sources	
Installment Purchase Proceeds	60,015
	<hr/>
Total Other Financing Sources	60,015
	<hr/>
Excess Revenues and Other Sources Over (Under) Expenditures and Other Uses	(114,540)
	<hr/>
Fund Balance--October 1, 2006	1,572,642
	<hr/>
Fund Balance--September 30, 2007	\$ 1,458,102
	<hr/> <hr/>

The Notes to Financial Statements are an integral part of this statement.

BARAGA COUNTY ROAD COMMISSION
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2007

EXHIBIT F

Net Change in Fund Balance--Total Governmental Funds	\$ (114,540)
------------------------------------------------------	--------------

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	3,555,439
-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	-----------

Equipment retirement is recorded as an expenditure credit in governmental funds, but not recorded as an expense in the Statement of Activities.

Deferred revenue is not available pay for current period expenditures and, therefore, not reported in the funds.	70,720
------------------------------------------------------------------------------------------------------------------	--------

Lease proceeds provide current financial resources to governmental funds, but entering into lease agreements increases long-term liabilities in the Statement of Net Assets. Repayment of notes/leases payable is an expenditure in governmental funds, but reduces the long-term liabilities in the Statement of Net Assets.	382,000
-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	---------

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (Increase in compensated absences)	<u>(19,990)</u>
------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	-----------------

Change in Net Assets of Governmental Activities	<u><u>\$3,873,629</u></u>
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The Notes to Financial Statements are an integral part of this statement.

BARAGA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

The accounting policies of the Baraga County Road Commission conform to generally accepted accounting principles (GAAP) in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies used by Baraga County Road Commission.

NOTE A--REPORTING ENTITY

The Baraga County Road Commission, which is established pursuant to the County Road Law Michigan Compiled Law (MCL) 224.1, is governed by an elected 3-member board of county road commissioners. The Road Commission may not issue debt without the county's approval and the property tax levy for road purposes is subject to county board of commissioners' approval. If approval is granted, Road Commission taxes are levied under the taxing authority of the county, as approved by the county electors, and would be included as part of the county's total tax levy as well as reported in the County Road Fund.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Baraga County Road Commission, a discretely presented component unit of Baraga County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county, which are earmarked by law for street and highway purposes. The board of county road commissioners is responsible for the administration of the Road Commission Operating Fund.

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation--Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the activities of the Baraga County Road Commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets-net of related debt or restricted net assets. All of the net assets that are not related to capital assets are classified as restricted due to legal constraints.

BARAGA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Basis of Presentation--Fund Financial Statements

Separate financial statements are provided for the Operating Fund (governmental fund). The Operating Fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

Measurement Focus/Basis of Accounting--Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenue include: (1) charges to customer or applicants for goods or services or privileges provided; (2) Michigan transportation funds, State/Federal contracts and township contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

When both restricted and unrestricted resources are available for use, it is the Road Commission's policy to use restricted resources first, then unrestricted resources as they are needed.

Measurement Focus/Basis of Accounting--Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, claims and judgments, are recorded only when payment is due.

BARAGA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Bank Deposits and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Investments are recorded at cost.

Inventories

Inventories are priced at cost as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs, and operations as used.

Property Taxes

The 2006 taxable valuation was \$188,261,493 on which ad valorem taxes of 2 mills were levied for the Road Commission and the Villages of L'Anse and Baraga's snow removal and road construction purposes. In addition, specific taxes are levied under the Industrial Facilities Tax Act and Commercial Forest Reserve Act.

The county's 2006 ad valorem tax was levied and collectible on December 1, 2006. It is the county's policy to recognize revenues from the current tax levy in the subsequent year when the proceeds of the levy are budgeted and made available for financing operations. The 2006 tax levy for Road Commission operations were recorded as revenue during the year ended September 30, 2007 totaling \$316,999 for all taxes received.

Capital Assets and Depreciation

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges and similar items) are reported in the Operating Fund in the government-wide financial statements. Capital assets are defined by Baraga County Road Commission as assets with an initial individual cost of more than \$200 and an estimated useful life in excess of two years. Such assets are recorded at historical costs or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

GASB Statement No. 34 makes it optional for phase III governments (Baraga County) to record major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated, for fiscal years ending after June 30, 1980, and that they be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB Statement No. 34. The Baraga County Road Commission has capitalized the current year's infrastructure since 2004, as required by GASB Statement No. 34, and has reported the infrastructure in the Statement of Net Assets.

BARAGA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Depreciation on Road Commission capital assets is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides for recording depreciation in the General Operating Fund as a charge to various expense accounts and a credit to a depreciation credit account for noninfrastructure related assets. Accordingly, the annual depreciation expense does not affect the available operating equities of the General Operating Fund for the noninfrastructure related assets; the infrastructure asset depreciation is reported as a separate line-item in the Statement of Activities. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Equipment	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure--Roads	8 to 30 years
Infrastructure--Bridges	12 to 50 years

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Operating Fund Statement of Net Assets.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE C--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Procedures

Budgetary procedures are established pursuant to Public Act 2 of 1968, as amended, (MCL 141.421) which requires the county board of road commissioners to approve a budget for the County Road Fund. Pursuant to the Act, the Road Commission's chief administrative officer prepares and submits a proposed operating budget to the board of road commissioners for its review and consideration. The board conducts a public budget hearing and subsequently adopts an operating budget. The budget is amended as necessary during the year and is approved by the board.

BARAGA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE C--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

Also, the board has authorized the chief administrative officer and fiscal officer to amend the Road Commission's budget when necessary, without increasing the overall budget, by transferring up to 20% from one line-item to another.

The budget is prepared on the modified accrual basis of accounting, which is the same basis as the fund financial statements.

Budget Violations

Public Act 2 of 1968, Section 19(1), provides that a local governmental unit shall not incur expenditures in excess of the amount appropriated. The following activities exceeded the final amended budget:

<u>Activity</u>	<u>Final Budget</u>	<u>Actual Expenditure</u>	<u>Variance</u>
Local Road Construction/Capacity Improvements		\$297,089	\$(297,089)
Local Road Structure Preservation/Structural Improvements	\$ 710,000	755,390	(45,390)

NOTE D--DEPOSITS AND INVESTMENTS

Michigan Compiled Laws 129.91, authorizes the county to deposit and invest in the accounts of Federally insured banks, credit unions, savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements, bankers' acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase, obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Road Commission has designated four financial institutions for the deposit of Road Commission funds. The investment policy adopted by the board in accordance with Public Act 20 of 1943, as amended, has authorized investment in the instruments described in the preceding paragraph. The Road Commission's deposits and investment policy are in accordance with statutory authority.

BARAGA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE D--DEPOSITS AND INVESTMENTS (Continued)

At year end, the Road Commission's deposits (there were no investments) were reported in the basic financial statements in the following categories:

Bank Deposits (Checking and Savings Accounts, Certificates of Deposit)	\$930,292
Petty Cash and Cash on Hand	<u>100</u>
Total	<u><u>\$930,392</u></u>

The bank balance of the primary government's deposits is \$1,099,435, of which \$341,944 is covered by Federal depository insurance.

Investments Authorized by the Road Commission's Investment Policy

The Road Commission's investment policy only authorizes investment in all those that are authorized by law. The Road Commission did not have any investments during 2007.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The investment policy did not address interest rate risk.

Concentration of Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The mutual funds and pension trust funds do not have a rating provided by a nationally recognized statistical rating organization. The investment policy of the Road Commission contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by Michigan law.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law and the Road Commission's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits.

BARAGA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE D--DEPOSITS AND INVESTMENTS (Continued)

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law and the Road Commission's investment policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

NOTE E--DEFERRED COMPENSATION PLAN

The Baraga County Road Commission offers all Road Commission employees a choice of two deferred compensation plans created in accordance with the Internal Revenue Code, Section 457. During 1998, the assets of the plan were held in a trust in a custodial account as described in IRS Section 457(g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodial account is held by the custodian thereof for the exclusive benefit of the participants and beneficiaries of this Section 457 plan and the assets may not be diverted to any other use. The administrators are: Nationwide Retirement Solutions, and EF Jones Insurance and are agents of the employer for purposes of providing direction to the custodian of the custodial account from time to time to the investment of the funds held in the account, transfer of assets to or from the account, and all other matters. In accordance with the provisions of GASB Statement No. 32 requirements, plan balances and activities are not reflected in the Road Commission's financial statements.

During 2006, the Road Commission ended their agreement with Hartford Life Insurance Company. Employees with funds in the Hartford plan can continue to have their funds with the plan until they individually elect to move their funds out of the plan.

NOTE F--RESERVE FOR SELF-INSURANCE

The Baraga County Board of Road Commissioners' policy is to self-insure for fleet collision coverage and employee group life coverage. The Collision Insurance Reserve Account was established in 1969 and the Life Insurance Reserve Account in 1982. The reserve accounts are funded by annual transfers of amounts equal to what the approximate premium would be on the respective coverage, plus interest earned on interest-bearing deposits of the reserve account. The Road Commission's policy provides that the transfers of premium amounts will be discontinued when the annual interest earnings on the reserve account are greater than the estimated premium cost. All collision repair costs on road equipment and group life benefit payments are expensed when paid and closed to the respective reserve account at year end.

BARAGA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE F--RESERVE FOR SELF-INSURANCE (Continued)

	Collision Insurance Reserve	Life Insurance Reserve	Total Self-Insurance Reserve
Balance--October 1, 2006	\$ 154,651	\$ 74,515	\$ 229,166
Additions			
Interest Earned	<u>2,326</u>	<u>1,122</u>	<u>3,448</u>
Balance--September 30, 2007	<u><u>\$ 156,977</u></u>	<u><u>\$ 75,637</u></u>	<u><u>\$ 232,614</u></u>

NOTE G--LONG-TERM DEBT

The long-term debt of the Road Commission may be summarized as follows:

	Balances 10/01/06	Additions (Reductions)	Balances 09/30/2007	Due Within One Year
<u>Installment Purchase Agreement</u>				
Payable to Commercial National Bank for Four CAT 140H Motor Graders Used 1999 Caterpillar Wheel Loader	\$ 141,589	\$ (141,589) 60,015	- \$ 60,015	\$ 60,015
Payable to De Lage Landen Financial Services Software System	47,741	(25,426)	22,315	22,315
<u>Loan Contract Payable</u>				
State Infrastructure Bank (SIB) Loan	275,000	(275,000)	-	
<u>Vested Employee Benefits Payable</u>				
Vacation Benefits	85,340	10,976	96,316	
Sick Leave Benefits	<u>233,195</u>	<u>9,014</u>	<u>242,209</u>	
Total	<u><u>\$ 782,865</u></u>	<u><u>\$ (362,010)</u></u>	<u><u>\$ 420,855</u></u>	<u><u>\$ 82,330</u></u>

Installment Purchase Contract

The installment purchase contract was entered into on September 5, 2007 for the purchase of one used 1999 Caterpillar Wheel Loader from Commercial National Bank. The agreement bears interest at 5.363% per annum with 12 monthly payments of \$5,147.73 and is summarized as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	<u>\$ 60,015</u>	<u>\$ 1,758</u>	<u>\$ 61,773</u>
Total	<u><u>\$ 60,015</u></u>	<u><u>\$ 1,758</u></u>	<u><u>\$ 61,773</u></u>

BARAGA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE G--LONG-TERM DEBT (Continued)

The installment purchase contract was entered into on May 5, 2005 for the purchase of a new software system for a total cost of \$75,642 from De Lage Landen Financial Services, Inc. The agreement bears interest at 5.82% per annum with 36 monthly payments of \$2,289.84 and is summarized as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	<u>\$ 22,315</u>	<u>\$ 584</u>	<u>\$ 22,899</u>
Total	<u><u>\$ 22,315</u></u>	<u><u>\$ 584</u></u>	<u><u>\$ 22,899</u></u>

Vacation Benefits

The Road Commission's employment policies provide for vacation benefits to be earned in varying amounts depending on the number of years of service of the employee. All vacation time accrued through December 31 of the current year shall be utilized in the following year.

Sick Leave Benefits

The sick leave benefits liability recorded as long-term debt in the Statement of Net Assets reflects only those vested benefits which would be payable should an employee quit.

The Road Commission's employment policies provide that sick leave is accumulated at the rate of 1 day per month for all regular employees who have worked more than ½ of the normal working hours during the month. There is no limit on the accumulation of sick leave and accumulated benefits shall be paid at the employee's prevailing rate of pay in accordance with the following policy:

1. Retirement or Death--An employee shall receive pay in a lump sum for accumulated sick leave at the following rate: 100% of the first 120 days and 50% of the remainder.
2. Resignation--An employee shall receive pay in a lump sum for accumulated vested sick leave computed as follows:

0-5 years	No sick leave benefits
5-10 years	50% of accumulated benefits
10-15 years	75 % of the first 120 days, and 50% of the remainder
15 or more years	100% of the first 120 days, and 50% of the remainder

BARAGA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE H--CAPITAL ASSETS

Following is a summary of the changes in the capital assets at September 30, 2007.

	Account Balances 10/01/06	Additions	Deductions	Account Balances 09/30/07
Capital Assets Not Being Depreciated				
Land and Improvements	\$ 106,277			\$ 106,277
Infrastructure--Land Improvements	5,052,719	\$ 1,409,702		6,462,421
Subtotal	5,158,996	1,409,702	\$ -	6,568,698
Capital Assets Being Depreciated				
Buildings	495,326			495,326
Road Equipment	5,252,746	306,770	582,937	4,976,579
Shop Equipment	104,461	1,690	785	105,366
Office Equipment	131,222	11,391	8,184	134,429
Engineers' Equipment	103,559	4,394		107,953
Stockroom Equipment	42,185	9,132	2,186	49,131
Depletable Assets	53,083			53,083
Infrastructure--Bridges	3,579,104	707,424		4,286,528
Infrastructure--Roads	1,430,375	1,638,609		3,068,984
Total	11,192,061	2,679,410	594,092	13,277,379
Less Accumulated Depreciation				
Buildings	313,990	11,016		325,006
Road Equipment	4,502,195	317,013	580,917	4,238,291
Shop Equipment	82,148	4,950	785	86,313
Office Equipment	51,973	13,719	7,914	57,778
Engineers' Equipment	65,409	7,245		72,654
Stockroom Equipment	35,436	2,863	2,110	36,189
Depletable Assets	53,083			53,083
Infrastructure--Bridges	85,993	98,352		184,345
Infrastructure--Roads	83,181	76,149		159,330
Total	5,273,408	531,307	591,726	5,212,989
Net Capital Assets Being Depreciated	5,918,653	2,679,410	533,673	8,064,390
Total Net Capital Assets	<u>\$ 11,077,649</u>	<u>\$ 4,089,112</u>	<u>\$ 533,673</u>	<u>\$ 14,633,088</u>

BARAGA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE H--CAPITAL ASSETS (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Net Equipment Expense	
Direct Equipment	\$ 317,013
Indirect Equipment	18,014
Net Administrative Expenses	
Office	13,719
Engineering	7,245
Building	815
Infrastructure Depreciation	<u>174,501</u>
Total Depreciation Expense	<u><u>\$ 531,307</u></u>

NOTE I--RISK MANAGEMENT

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Road Commission has purchased commercial insurance for medical benefit claims, self-insures for fleet collision and employee group life coverage as detailed in Note F, and participates in the Michigan County Road Commission Self-Insurance Pool for claims relating to general liability, excess liability, auto liability, errors and omissions, physical damage (equipment, buildings and contents) and workers' compensation. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

The county road commissions in the State of Michigan established and created a trust fund, known as the Michigan County Road Commission Self-Insurance Pool (Pool) pursuant to the provisions of Public Act 138 of 1982. The Pool is to provide for joint and cooperative action relative to members' financial and administrative resources for the purpose of providing risk management services along with property and liability protection. Membership is restricted to road commissions and related road commission activities with the state. The Baraga County Road Commission became a member of the pool in 1980 for workers' compensation insurance and in 1984 for liability and property coverage.

The Michigan County Road Commission Self-Insurance Pool program operates as a common risk-sharing management program for road commissions in Michigan. Member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts.

BARAGA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE J--EMPLOYEES' RETIREMENT SYSTEM

Description of Plan and Plan Assets

The Baraga County Road Commission is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death, duty-connected death, and post-retirement adjustments to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.25% times the final average compensation (FAC). The most recent period for which actuarial data was available was for the fiscal year ended December 31, 2006.

MERS was organized pursuant to Section 12a of Public Act 156 of 1851, as amended (MCL 46.12a) State of Michigan. The MERS actuarial report was made in accordance with generally recognized actuarial methods in compliance with Public Act 220 of 1996, as amended, and the MERS plan document as revised. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Road Commission's competitive bargaining unit and personnel policy, which does not require employees to contribute to the plan. The Road Commission is required to contribute at an actuarially determined rate; the rate was 16.19% for the calendar year ending December 31, 2006.

Annual Pension Cost

During the calendar year ended December 31, 2006, the Road Commission's contributions totaling \$172,377 were made in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 2004. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit.

BARAGA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE J--EMPLOYEES' RETIREMENT SYSTEM (Continued)

Three Year Trend Information for GASB Statement No. 27

<u>Year Ended Dec 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2004	\$ 127,965	100%	\$0
2005	149,244	100%	0
2006	172,377	100%	0

Required Supplementary Information for GASB Statement No. 27

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Underfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percent of Covered Payroll</u>
12/31/04	\$ 4,197,945	\$ 5,855,691	\$ 1,657,746	72%	\$ 1,035,844	160%
12/31/05	4,200,480	6,245,601	2,045,121	67%	1,068,489	191%
12/31/06	4,263,471	6,569,030	2,305,559	65%	992,998	232%

Significant actuarial assumptions used include:

- 1) Long-term investment yield rate of 8%;
- 2) Annual salary increases of 4.5% plus a percentage based on an age-related scale to reflect merit, longevity, and promotional salary increases; and
- 3) Base inflation of 4.5%.

NOTE K--POST-EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note J, the Baraga County Road Commission provides post-employment health care insurance benefits to certain retired or permanently disabled union and administrative employees and/or their spouse in accordance with the following provisions:

Retired Union Employees

The hospital and medical coverage benefits are provided in accordance with Article 33(A.2a) and 33(A.2b) in the union agreement. Article 33(A2a) states: When an employee elects to retire early and has at least twenty (20) years of continuous service with the Road Commission, the Road Commission agrees to continue to pay the premiums for the lesser of: (1) five years; or (2) until the employee's qualification for Medicare or death. Article 33(A2b) states: For employees employed as of December 31, 1998 electing to retire early, the Road Commission agrees to continue to pay the premiums from age 62 to 65 or until the employee qualifies for Medicare or death, whichever comes sooner, even if the employee has not completed such twenty (20) years.

BARAGA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE K--POST-EMPLOYMENT BENEFITS (Continued)

Retired Administrative Employees

The benefits are provided in accordance with Section 10(A.2) of the "General Employee Policy pertaining to Non-Bargaining Unit Employees," which includes the provision that when an employee elects to retire early, the Road Commission agrees to pay the medical insurance premium from age 60 to 65 or until the employee qualifies for Medicare, whichever comes sooner.

Permanently Disabled Employees

The benefits are provided in accordance with a board of road commissioners' policy adopted on November 13, 1996, which includes the provision that any regular employee having 20 years of service with the Road Commission who becomes permanently disabled, or any regular employee having 5 years of service with the Road Commission who becomes permanently disabled after reaching age 55, shall be eligible for health insurance benefits for a 36 month period. Said period shall commence the month after the month of the last day worked. Eligible employees are those who have been determined to be permanently disabled and are receiving social security disability and MERS retirement benefits. During the three year period under this policy, the Road Commission will pay the premiums for primary coverage until such time that the employee qualifies for Medicare Part B, at which time the Road Commission will pay the premium for secondary coverage.

The Road Commission's policy is to finance this benefit on a pay-as-you-go basis. During the fiscal year ended September 30, 2007, nine retirees and/or disabled employees were eligible for this benefit at a total cost of \$77,623. During 2007, the Road Commission also paid two retirees a total of \$40,150 for payments in lieu of insurance premiums.

NOTE L--FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the fiscal year ended September 30, 2007, the Federal aid expended by the Road Commission was \$1,363,059 for contracted projects and \$1,259,146 for negotiated projects. The difference between the revenue and expenditures for negotiated projects is due to a BIA project in progress at September 30, 2007, which had not been billed at the end of the year. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT. The contracted Federal projects are not subject to single audit requirements by the road commissions, as they are included in MDOT's Single Audit. Negotiated projects are defined as projects performed by Road Commission employees or private contractors paid for and administrated by the Road Commission and are subject to a single audit if the expenditures exceeded \$500,000.

A Single Audit was performed during the fiscal year ended September 30, 2007, as there was \$1,188,426 expended in Federal Awards.

BARAGA COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTAL INFORMATION
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
BUDGET AND ACTUAL
For the Year Ended September 30, 2007

EXHIBIT G

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Taxes				
Property Taxes	\$ 285,000	\$ 315,000	\$ 316,999	\$ 1,999
Federal Aid (Negotiated Projects)				
Bureau of Indian Affairs	1,370,000	1,528,000	1,188,426	(339,574)
FEMA	50,000	-	-	-
Emergency Relief	28,000	28,000	-	(28,000)
Federal Aid (Contracted Projects)				
Critical Bridge	689,000	609,000	567,735	(41,265)
Category "D" Funds	-	-	103,143	103,143
Safety	-	-	200,000	200,000
Surface Transportation Funds	440,000	200,000	492,181	292,181
State Aid				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Primary Road	1,159,000	1,151,000	1,160,328	9,328
Local Road	630,000	624,000	628,047	4,047
Snow Removal	290,000	286,000	286,446	446
Economic Development Funds				
Forest Funds (E)	168,000	168,000	167,478	(522)
Critical Bridge	61,000	95,000	106,450	11,450
State Buyback STP Funds	345,000	357,000	357,098	98
Jobs Today Grant	845,000	137,000	133,589	(3,411)
FEMA	5,000	-	-	-
Contributions--Local Units				
Townships	120,000	102,000	102,346	346
Charges for Services				
Private Driveway Fees	-	79,000	78,797	(203)
Sales	30,000	51,500	51,845	345
Salvage Sales	20,000	28,000	26,866	(1,134)
Interest and Rents				
Interest Earned	15,000	47,000	46,963	(37)
Other Revenue				
Refunds/Rebates	1,000	500	998	498
Gain on Equipment Disposals	4,000	46,000	45,486	(514)
Private Contributions	-	-	298,035	298,035
Total Operating Revenue	6,565,000	6,370,000	6,369,256	(744)
Other Financing Sources				
Installment Purchase Proceeds		60,000	60,015	15
Total Other Financing Sources	-	60,000	60,015	15
Total Revenue and Other Financing Sources	6,565,000	6,430,000	<u>\$ 6,429,271</u>	<u>\$ (729)</u>
Fund Balance--October 1, 2006	886,545	1,343,475		
Total Budget	<u>\$ 7,451,545</u>	<u>\$ 7,773,475</u>		

The Notes to Financial Statements are an integral part of this statement.

BARAGA COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTAL INFORMATION
SCHEDULE OF EXPENDITURES--BUDGET AND ACTUAL
For the Year Ended September 30, 2007

EXHIBIT H

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road				
Preservation/Structural Improvements	\$ 2,700,000	\$ 2,170,000	\$ 2,150,253	\$ 19,747
Routine and Preventive Maintenance	690,000	715,000	694,853	20,147
Local Road				
Construction--Capacity Improvements	-	-	297,089	(297,089)
Preservation/Structural Improvements	600,000	570,000	544,659	25,341
Routine and Preventive Maintenance	1,150,000	1,365,000	1,336,906	28,094
Primary Road Structure				
Preservation/Structural Improvements	60,000	25,000	8,343	16,657
Routine and Preventive Maintenance	1,000	5,000	475	4,525
Local Road Structure				
Preservation/Structural Improvements	490,000	710,000	755,390	(45,390)
Routine and Preventive Maintenance	1,000	5,000	218	4,782
Equipment Expense--Net	(36,000)	(71,000)		
Direct			\$ 611,016	
Indirect			279,093	
Operating			212,605	
Less: Equipment Rentals			<u>(1,251,336)</u>	(148,622)
				77,622
Administrative Expense--Net	378,000	373,000		
Administrative Expense			378,986	
Less: Handling Charges			(12,413)	
Other			<u>(38)</u>	366,535
				6,465
Cost of General Services	1,000	45,000	38,603	6,397
Non Road Project	6,000	79,000	78,797	203
Capital Outlay--Net	89,000	(8,000)		
Capital Outlay			333,377	
Less: Depreciation Credits			(356,807)	
Equipment Retirements			<u>(2,364)</u>	(25,794)
				17,794
Debt Service				
Principal Payments	430,000	442,715	442,015	700
Interest Expense	5,000	4,285	4,091	194
Contingency	<u>100,000</u>			
Total Expenditures	6,665,000	6,430,000	<u>\$ 6,543,811</u>	<u>\$ (113,811)</u>
Fund Balance--September 30, 2007	<u>786,545</u>	<u>1,343,475</u>		
Total Budget	<u>\$ 7,451,545</u>	<u>\$ 7,773,475</u>		

The Notes to Financial Statements are an integral part of this statement

BARAGA COUNTY ROAD COMMISSION
ANALYSIS OF CHANGES IN FUND BALANCES
For the Year Ended September 30, 2007

EXHIBIT I

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	\$ 3,406,292	\$ 2,712,388	\$ 250,576	\$ 6,369,256
Total Expenditures	2,986,108	3,037,157	520,546	6,543,811
Excess of Revenues Over (Under) Expenditures	420,184	(324,769)	(269,970)	(174,555)
Other Financing Sources (Uses)				
Optional Transfers	(350,044)	350,044		-
Interfund Adjustments		-	-	-
Total Other Financing Sources (Uses)	(350,044)	350,044	60,015	60,015
Excess of Revenues Over (Under) Expenditures and Other Financing Sources and (Uses)	70,140	25,275	(209,955)	(114,540)
Fund Balance--October 1, 2006	-	-	1,572,642	1,572,642
Fund Balance--September 30, 2007	\$ 70,140	\$ 25,275	\$ 1,362,687	\$ 1,458,102

BARAGA COUNTY ROAD COMMISSION
ANALYSIS OF REVENUES AND
OTHER FINANCING SOURCES
For the Year Ended September 30, 2007

EXHIBIT J

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Taxes				
Property Taxes		\$ 316,999		\$ 316,999
Federal Aid (Negotiated Projects)				
Bureau of Indian Affairs	\$ 803,365	385,061		1,188,426
Federal Aid (Contracted Projects)				
Bridge	-	567,735		567,735
Category "D" Funds	103,143			103,143
Safety	200,000			200,000
Surface Transportation Funds	492,181			492,181
State Aid				
Michigan Transportation Fund				
Engineering	6,488	3,512		10,000
Allocation	1,160,328	628,047		1,788,375
Snow Removal		286,446		286,446
Economic Development Fund				
Forest Funds (E)	150,000	17,478		167,478
Critical Bridge	-	106,450		106,450
State Buyback STP Funds	357,098	-		357,098
Jobs Today Grant	133,589			133,589
Contributions--Local Units				
Townships		102,346		102,346
Charges for Services				
Private Driveway Fees			\$ 78,797	78,797
Sales	100	279	51,466	51,845
Salvage Sales			26,866	26,866
Interest and Rents				
Interest Earned	-	-	46,963	46,963
Other Revenue				
Refunds/Rebates			998	998
Gain on Equipment Disposal			45,486	45,486
Contributions From Private Sources		298,035	-	298,035
Total Operating Revenue	3,406,292	2,712,388	250,576	6,369,256
Other Financing Sources				
Installment Purchase Proceeds			60,015	60,015
Total Other Financing Sources	-	-	60,015	60,015
Total Revenue and Other Financing Sources	\$ 3,406,292	\$ 2,712,388	\$ 310,591	\$ 6,429,271

BARAGA COUNTY ROAD COMMISSION
ANALYSIS OF EXPENDITURES
For the Year Ended September 30, 2007

EXHIBIT K

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Preservation/Structural Improvements	\$ 2,150,253			\$ 2,150,253
Routine and Preventive Maintenance	694,853			694,853
Local Road				
Construction--Capacity Improvements		\$ 297,089		297,089
Preservation/Structural Improvements		544,659		544,659
Routine and Preventive Maintenance		1,336,906		1,336,906
Primary Road Structures				
Preservation/Structural Improvements	8,343			8,343
Routine and Preventive Maintenance	475			475
Local Road Structures				
Preservation/Structural Improvements		755,390		755,390
Routine and Preventive Maintenance		218		218
Equipment Expense--Net (Per Exhibit H)	(48,540)	(82,916)	\$ (17,166)	(148,622)
Administrative Expense--Net (Per Exhibit H)	180,724	185,811		366,535
Cost of General Services			38,603	38,603
Non Road Project			78,797	78,797
Capital Outlay--Net (Per Exhibit H)			(25,794)	(25,794)
Debt Service				
Principal Payments			442,015	442,015
Interest Payments			4,091	4,091
Total Expenditures	\$ 2,986,108	\$ 3,037,157	\$ 520,546	\$ 6,543,811

BARAGA COUNTY ROAD COMMISSION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (3)
For the Year Ended September 30, 2007

SCHEDULE 1

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Revenue Recognized</u>	<u>Federal Expenditures</u>
Negotiated Projects (1)				
US Department of Transportation				
Highway Research, Planning and Construction				
Direct--US Department of Interior				
Bureau of Indian Affairs	20.205	AGF50060011	\$ 231,872	\$ 231,872
Bureau of Indian Affairs	20.205	AGF50060037	45,088	45,088
Bureau of Indian Affairs	20.205	AGF50030012	522,201	592,921
Bureau of Indian Affairs	20.205	AGF50050008	51,389	51,389
Bureau of Indian Affairs	20.205	AGF50050009	40,565	40,565
Bureau of Indian Affairs	20.205	AGF50060012	43,270	43,270
Bureau of Indian Affairs	20.205	AGF20070006	157,604	157,604
Bureau of Indian Affairs	20.205	AGF20070005	87,530	87,530
Bureau of Indian Affairs	20.205	AGF50060038	6,022	6,022
Bureau of Indian Affairs	20.205	AGF50060038	2,885	2,885
Total US Department of Transportation			<u>1,188,426</u>	<u>1,259,146</u>
Total Negotiated Projects Subject to Single Audit Requirements			<u>\$ 1,188,426</u>	<u>\$1,259,146</u>
Contracted Projects (2)				
US Department of Transportation				
Passed Through Michigan Department of Transportation				
Highway Research, Planning and Construction				
Critical Bridge	20.205	RR 5110 83836A	\$ 406,915	\$ 406,915
Critical Bridge	20.205	RR 5649 89189A	160,820	160,820
Surface Transportation Program	20.205	RR 5312 83460A	189,871	189,871
Surface Transportation Program	20.205	RR 5311 83447A	150,357	150,357
Surface Transportation Program	20.205	RR 5310 83461A	76,060	76,060
Surface Transportation Program	20.205	RR 5313 83443A	75,894	75,894
Federal "D" Funds	20.205	RR 5326 76627A	103,143	103,143
Safety Program	20.205	RR 5107 84932A	200,000	200,000
Total US Department of Transportation			<u>1,363,059</u>	<u>1,363,059</u>
Total Contracted Projects			<u>\$ 1,363,059</u>	<u>\$1,363,059</u>
Total Federal Aid Projects			<u>\$ 2,551,485</u>	<u>\$2,622,205</u>

The notes to this schedule are an integral part of this statement.

BARAGA COUNTY ROAD COMMISSION
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2007

1. Negotiated projects are projects that the Road Commission's work force performs or administers the work in accordance with a contract negotiated with the Bureau of Indian Affairs.
2. Contracted projects are administered by the Michigan Department of Transportation (MDOT) and will be included in its Single Audit.
3. This schedule is presented on the modified accrual basis of accounting; please refer to Note B of the financial statement notes for other significant accounting policies.

**Baraga County Road Commission
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2007**

Section I--Summary of Auditor's Results

Financial Statements

Type of auditor's report issues: Unqualified

Internal control over financial reporting:

- | | | | | | | |
|---------------------------------------------------------------------------------------------|-------|-----|-------|-----|-------|----|
| • Material weakness(es) identified? | _____ | Yes | _____ | X | _____ | No |
| • Significant deficiency(ies) identified that are not considered to be material weaknesses? | _____ | X | _____ | Yes | _____ | No |
| Noncompliance material to financial statements noted? | _____ | Yes | _____ | X | _____ | No |

Federal Awards

Internal control over major programs:

- | | | | | | | |
|---------------------------------------------------------------------------------------------|-------|-----|-------|---|-------|---------------|
| • Material weakness(es) identified? | _____ | Yes | _____ | X | _____ | No |
| • Significant deficiency(ies) identified that are not considered to be material weaknesses? | _____ | Yes | _____ | X | _____ | None reported |

Type of auditor's report issued on compliance for major programs: unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	_____	Yes	_____	X	_____	No
--------------------------------------------------------------------------------------------------------------------	-------	-----	-------	---	-------	----

Identification of major programs:

<i>CFDA Number(s)</i>	<i>Name of Federal Program or Cluster</i>
20.205	Highway Research, Planning and Construction

Dollar threshold used to distinguish between type A and type B programs:

\$300,000

Auditee qualified as low-risk auditee?

_____	Yes	_____	X	_____	No
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**Baraga County Road Commission
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2007**

Section II--Financial Statement Findings

SIGNIFICANT DEFICIENCY

Physical Inventory

Finding 2007-01

Condition: A physical inventory (cross sectioning) was not taken on stock piled road materials.

Criteria: The Michigan Department of Treasury Uniform Accounting Procedures Manual for County Road Commissions requires perpetual inventory records to be in balance with general ledger accounts 109 - Road Materials Inventory and 110 - Equipment Parts and Materials Inventory. A physical count of all inventory items must be taken at least annually. Any differences between the physical counts and perpetual inventory records should be investigated and explained. Inventory adjustments to the 109 account must be recorded in account 514-791 - Distributive Expense - Other and inventory adjustments to the 110 account must be recorded in account 511-791 - Equipment Expense - Indirect. The perpetual inventory records must also be adjusted to agree with quantities determined by the physical inventory counts.

Recommendation: We recommend that the Road Commission take a physical inventory, at least annually, of its stock-piled road materials and make the appropriate adjustments to the subsidiary records and control account.

- Contact Person(s) Responsible for Correction
Douglas J. Mills, Engineer/Manager

- Corrective Action Planned

We will conduct annual and document annual physical inventory of our stock piled inventory as we have in the past.

- Anticipated Completion Date

At the beginning of our construction season during 2008.

**Baraga County Road Commission
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2007**

Section II--Financial Statement Findings

STATUTORY COMPLIANCE

Our examination revealed the following instances of noncompliance with State statutes and regulations.

General Appropriation Act

Finding 2007-02

Condition: During the fiscal year ended September 30, 2007, expenditures were incurred in excess of amounts appropriated in the amended budget in total and for the following activities:

<u>Activity</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Local Road Construction/Capacity Improvements		\$ 297,089	\$ (297,089)
Local Road Structure			
Preservation/Structural Improvements	\$ 710,000	755,390	(45,390)

Criteria: The expenditure of funds in excess of appropriations is contrary to the provisions of Public Act 2 of 1968, as amended. The act requires the board of commissioners to make budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget.

Directive: We direct the Road Commission to develop budgetary control procedures which will ensure that expenditures do not exceed amounts authorized in the General Appropriations Act or amendments thereof.

Section III--Federal Award Findings and Questioned Costs

No matters were reported.



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

January 11, 2008

Baraga County Road Commission
Board of County Road Commissioners
US 41 South
P.O. Box 217
L'Anse, Michigan 49946

RE: Report on Internal Control Over Financial Reporting and on Compliance and Other
Matters Based on an Audit of the Financial Statements Performed in Accordance
With Government Auditing Standards

Dear Commissioners:

We have audited the financial statements of the Baraga County Road Commission, a component unit of Baraga County, as of and for the year ended September 30, 2007, and have issued our report thereon dated January 11, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Baraga County Road Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Baraga County Road Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Baraga County Road Commission's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting

principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described as Finding 2007-01 in the accompanying Schedule of Findings and Questioned Costs to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Baraga County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under Government Auditing Standards, and which are described in the accompanying Comments and Recommendations as Finding 2007-02.

We noted certain matters that we reported to management of Baraga County Road Commission in a separate letter dated January 11, 2008.

This report is intended solely for the information and use of the Baraga County Board of Road Commissioners, management and others within the Road Commission, Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

January 11, 2008

Baraga County Road Commission
Board of County Road Commissioners
US 41 South
P.O. Box 217
L'Anse, Michigan 49946

RE: Report on Compliance With Requirements Applicable to Each Major Program and on
Internal Control Over Compliance in Accordance With OMB Circular A-133

Dear Board Members:

Compliance--We have audited the compliance of Baraga County Road Commission (component unit of Baraga County, Michigan) with the types of compliance requirements described in the US Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that is applicable to its major Federal programs for the year ended September 30, 2007. Baraga County Road Commission's major Federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each its major Federal program is the responsibility of Baraga County Road Commission's management. Our responsibility is to express an opinion on Baraga County Road Commission's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program. An audit includes examining, on a test basis, evidence about Baraga County Road Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Baraga County Road Commission's compliance with those requirements.

In our opinion, Baraga County Road Commission complied, in all material respects, with the requirements referred to above that are applicable to its major Federal program for the year ended September 30, 2007.

Internal Control Over Compliance--The management of Baraga County Road Commission is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered Baraga County Road Commission's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion of the effectiveness of the Baraga County Road Commission's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a Federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Road Commission's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the Road Commission's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a Federal program will not be prevented or detected by the Road Commission's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information of the Baraga County Road Commission's Board of Trustees, the Road Commission's management, others within the Road Commission, and Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division